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OFFICE OF NATIONAL ESTIMATES

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MEMORANDUM OF INFORMATION NO. 79

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The uncompromising position which the Iranian Government has taken at the very outset of its talks with the Anglo-Iranian Oil Company delegation in Tehran greatly increases the risk of precipitate action by either the Iranians or the British. The Iranian official group in Khuzistan has demanded that the oil company management hand over a statement of oil export proceeds following passage of the nationalization law on 20 March and that it immediately begin turning over to Iran 75 percent of all income received, either in Iran or London, from the sale of Iranian oil. In Tehran, the Iranian negotiators have asserted they will not proceed with discussions unless the oil company accepts the nationalization law in toto and agrees to turn over to Iran 75 percent of gross revenues less expenses -- the remaining 25 percent to be placed in escrow for settlement of the oil company's compensation claims.

These parallel demands, which Premier Mossadeq has justified to US Ambassador Grady on the ground that he is pledged to carry out the nationalization law as passed, leave little basis for any negotiating. Although acceptance of Iran's conditions would still leave the British technically free to seek a management contract, their bargaining position would be weak and their hope of gaining any substantial compensation for the capital equipment Iran is taking over would be gone.

Mossadeq will probably be under some pressure to modify his position from the parliamentary group, reported to be large, which favors some modification of the law. It is possible that the Iranian demands may in fact represent an attempt to soften up the oil company rather than a firm position; after having made these demands, the Iranians approached the British delegation with a new request for money to tide them over -- this time reportedly for 20 million pounds rather than the 5 million pounds requested by the Finance Minister several weeks ago after the company cut off advance payments on royalties.

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Should Mossadeq remain adamant, however, the following serious developments might take place:

- a. Iran might proceed with seizure of the oil company's operating records and funds -- including seizure of the approximately three and a third million pounds deposited to the company's account in banks within Iran. This would probably lead to a breakdown of oil flow to the West as a result of the diversion of the company's working balances, the probable departure of British technicians and managers, and the probable refusal of the company to transport the oil in its tankers.
- b. The oil company might stage a "strike" -- withdrawing its technicians and managers, refusing to transport oil, and terminating its purchases of rials -- even without precipitate Iranian action. Such action, already under active consideration, would at least temporarily paralyze the oil industry and would place a severe strain on the already straitened Iranian treasury.
- c. [Redacted]
- d. The Iranian treasury might find itself unable to meet payrolls and other obligations. Unless company sterling advances are resumed, Iran appears destined to undergo a severe financial crisis at some time within the next two months.

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